

Operational planning

How can we maximize efficiency and improve our dairy businesses by utilizing our current resources?

By Lauren Hill

Operational planning is a management approach that builds the framework for what your business will concentrate on to make improvements in the near future. This differs from strategic planning, which is focused more on long-term goals, and your vision for the business at least three to five years into the future. The operational plan for the year should continue to move the business towards the goals outlined in the strategic plan. Your operational plan can be broken down into many different departments (crops, herd health, feeding, manure management, parlor, replacement herd, etc.), whereas your strategic plan is the blueprint for the business as a whole.

Determining what to do to maximize efficiency and performance using current resources is the main goal of operational planning. How can we make completing specific tasks more efficient, using less resources, while maintaining or improving quality? By analyzing historical data and past records from your farm, you can start assessing your current business operations and performance, and then pinpoint the areas that will benefit most from improvements. Having complete and accurate records allows you to establish your baseline business performance for each specific area of the business.

This baseline can be used to benchmark your farm in a number of different ways. First, you can benchmark your farm against itself using the previous year's records. In this case, you can measure the performance of different areas of the business to see if you are on the right track to reach your short-term and long-term goals and to pinpoint where you'd like to make operational modifications. You can also use this benchmarking tool to analyze

past changes and see how those changes impacted different areas of the business. This type of benchmarking allows you to see how the business is performing from year to year.

Externally benchmarking your business to industry standards, research, and to

**“Accurate
and detailed
bookkeeping leads
to making better
management
decisions, leading
to higher farm
profitability.”**

—Bruce Dehm, Dehm Associates

other farms of similar size and business model, is another helpful tool. This is the same basic concept as internally benchmarking. However, being able to compare your numbers to those of other farms or industry standards allows you to see how your business compares to the industry as a whole. This also allows you to see how you can compete with other similar businesses. If you have an area that struggles compared to other farms, this could be the first area to look at when making an operational change. External benchmarking can give producers a good idea of where they can continue to make advancements in their business. By both internally and

externally benchmarking the business, you can see if progress is made year to year, and also evaluate where you rank within the industry.

Once you've identified all of the areas to make an adjustment, the next phase is to prioritize those areas and decide which steps need to be taken to make those improvements. You can prioritize the areas to focus on first, second and third in a number of ways. You can prioritize the areas based on which can be impacted the easiest, which uses the least amount of resources and capital, by which will lead to the greatest economic return, or by which improvement supports your business's strategic plan. The changes that you prioritize will be based on your own business's performance goals.

After you have prioritized which area that you want to focus on first, the next step is to decide on a plan to improve it and then to implement the change. Typically, more than one approach can be taken to improve the area. You will need to brainstorm a list of potential approaches and decide with your management team which method is the best option for your farm. To evaluate the different methods, think about what cash and profit can be generated from each approach, how fast will results be seen, how much capital is needed, and how confident are you that this change will work? When looking at different approaches, it is important to understand and evaluate how that option will affect your budget as well as which one would work best in your specific circumstances. A tactic for implementation that works on one farm may not work the same on every

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BUSINESS ANALYSIS RESOURCES:

Cornell Dairy Farm Business

Summary (DFBS)

Annual financial analysis and education program offered through Cornell University and Cornell Cooperative Extension.

Visit dfbs.cornell.edu or dfbs.aem.cornell.edu or contact your local NY extension office.

Farm Credit “Northeast Dairy Benchmark Summary”

Annual financial analysis prepared for New England and New York producers through the efforts of Farm Credit East.

Visit farmcrediteast.com or contact your local Farm Credit office or business consultant.

Farm Credit “Large Herd Benchmark Program”

Detailed annual business summary reports, meetings, and follow-up targeted specifically for participating dairies across multiple states.

Contact your local Farm Credit office or business consultant.

Dehm Associates “Dairy Dashboard”

Benchmarking program for monthly, quarterly and annual financial analysis for preparing trends, budgets, actual-to-budget comparisons, and utilizing within the management teams.

Visit dehmassociates.com, email: bdehm@dehmassociates.com or call 585-243-4427.



Farm Credit “Dairy Profit Analyzer”

Monthly or quarterly business analysis program for tracking year-to-date (YTD) earnings, trends, and comparison to budget, benchmarking, and utilizing within management teams.

Contact your local Farm Credit office or business consultant.

Cornell University PRO-DAIRY “Dairy Profit Monitor” Program

Monthly web-based program that tracks selected financial and production metrics for use in tracking progress during the year and over time, with a focus on the milking herd.

Visit dairyprofit.cornell.edu.

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farm. Reach out to your veterinarian, nutritionist, business consultant, lender, or any other trusted professional who could also be beneficial in evaluating and implementing changes.

The business's yearly budget will be impacted by the implementation of operational changes. Will the initial cost of implementing the change be outweighed by the overall financial impact of the business? How will the costs associated with the change fit into your yearly budget and what profit will eventually be generated by the change? What happens to the business if the change was implemented and it doesn't work? The impact on the business's budget is an important factor of operational planning. Following all of the steps aforementioned and continuing to track progress is an essential part of the process.

After operational changes have been completed, continuing to track and benchmark business performance is necessary to ensure that your business is moving in the right direction to continue to meet your goals. If we don't know how our business was performing before we made operational changes, we won't

be able to see if progress was made. Tracking the performance of each area of the business will allow you to assess if the change had positive or negative effects on each aspect of the business.

If one of your operational goals was to improve feed efficiency, your business should track the key performance indicators (KPIs) and key financial indicators (KFIs) that revolve around lactating-cow dry matter intake and milk production.

- Did the operational changes improve performance?
- If they didn't, what additional changes still need to be made?
- Were the changes you wished to implement followed completely and accurately?
- Did the change implemented get you closer to your business's goals at the end of the day?

By first internally benchmarking this information, you will be able to determine if your operational changes are improving efficiency and performance month to month, and year to date, and if progress is being made. This also allows you to have more control

over the operation and to catch problem areas more quickly, which gives you the opportunity to intervene and make the necessary changes to minimize the impact of a negative trend.

Many tools are available to dairy farmers to help with the different aspects of operational planning. New funding through the Dairy Advancement Program is now available to dairy farms in New York State, and it can provide a monetary award to help implement and support improving record-keeping systems, as well as one year of funding for farm operational budgeting and planning. This program can help producers analyze costs and address areas of opportunity for current farm operations, prepare annual operating budgets, and track performance. Keeping complete and accurate records is an essential part of any business. Tracking past and future performance allows farm businesses to continue to improve to stay competitive in the industry. ■

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